CH. 3 CHEAT CARD — ADJUSTING THE ACCOUNTS

THE SENTENCE: adjusting entries make the books tell the truth about WHEN — each pairs an income-statement account with a balance-sheet account, and NEVER touches Cash

1 THE GROUND RULES

WHY ADJUST

time period assumption — slices on purpose

ACCRUAL basis (GAAP): earn/incur, not cash

revenue recognition + MATCHING principle

unadjusted TB balances — and still lies

THE FAMILY

DEFERRALS — cash FIRST: prepaid · unearned

ACCRUALS — event FIRST: revenues · expenses

deferrals HAVE an originating entry

accruals have NO entry until you adjust

DEPRECIATION

ANNUAL = (COST − SALVAGE) ÷ LIFE

credit ACCUMULATED DEPRECIATION — contra

BOOK VALUE = cost − accum dep ≠ market

allocation, not valuation · LAND: never

2 THE 8 ENTRIES — Dr over Cr, all dated Dec 31

deferrals adjust what EXISTS · accruals create the FIRST record · interest = loan × rate × time/12

Dr Supplies Expense
Cr Supplies

Dr Insurance Expense
Cr Prepaid Insurance

Dr Rent Expense
Cr Prepaid Rent

Dr Depreciation Expense
Cr Accumulated Depreciation

Dr Unearned Revenue
Cr Revenue

Dr Accounts Receivable
Cr Revenue

Dr Salaries Expense
Cr Salaries Payable

Dr Interest Expense
Cr Interest Payable

3 SKIP IT — WHAT LIES (the exam's favourite)

MISS A PREPAID / DEPRECIATION

expenses UNDER → NI OVER → equity OVER

assets OVER (the closet disagrees)

flatters your profit

MISS AN UNEARNED / ACCRUAL

unearned: liabilities OVER · NI UNDER

accruals: everything UNDER (revenues)

collection later ≠ new revenue

THE TRAPS: Cash in an adjusting entry = WRONG · collecting an old receivable is NOT revenue · book ≠ market · land never depreciates